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Cryptocurrency, KYC and AML (/latest-news/2018/1/26/cryptocurrency-kyc-and-aml)

Negotiations are currently taking place regarding the EU's 4AMLD, which will ensure that cryptocurrency firms activities are in line with current legislation. Concerns have been growing that cryptocurrencies provide the ultimate outlet for criminals and money launderers, as well as for tax evasion, because it can be used anonymously. But what exactly is cryptocurrency and how is it vulnerable?

Cryptocurrency is any digital or virtual currency which uses cryptography to secure transactions and control the creation of new units. Cryptocurrency can be used to buy goods and services, and for investment. There have been many attempts to establish a viable cryptocurrency over the years, but the wider use of blockchain technology, which makes cryptocurrency more secure, has recently given the process credibility and led to the creation of valid currencies. Currently, the most common cryptocurrencies are Bitcoin, Ethereum and Ripple.

Some cryptocurrencies are widely accepted but not legally recognised, making them a risky investment. In April 2017, Japan became the first country to recognise Bitcoin and Ethereum as a legal means of payment, by amending their payment service act to include the Virtual Currency Act.

Cryptocurrency has until now fallen outside of the reach of legislation in the UK, making it highly attractive to those wishing to launder money and carry out financial crimes. The Serious and Organised Crime Command department of London's Metropolitan Police, said that the number of cases involving cryptocurrency was zero at the start of 2016, but has now risen sharply to several dozen and is set to increase. Lack of legislation and certainty has also resulted in a hugely volatile market, with massive gains and losses.

But all this will change, as the UK government begin negotiations with the EU to bring legislation for cryptocurrency exchange platforms and wallet providers in line with traditional currency. Traders will soon have to disclose their identities in a move to prevent money laundering and counter terrorism. Bitcoin and cryptocurrency traders will be required to carry out the same KYC and due diligence as traders of traditional currencies.

The negotiations are expected to conclude in early 2018.

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